Postal Regulatory Commission
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BEFORE THE

POSTAL REGULATORY COMMISSION

WASHINGTON, DC 20268-0001

Periodic Reporting
(Proposal Six)

Docket No. RM2020-13

PUBLIC REPRESENTATIVE MOTION FOR ISSUANCE OF SECOND INFORMATION REQUEST

(November 2, 2020)

Pursuant to 39 C.F.R. § 3001.21(a) and 39 C.F.R. § 3007.3(c), the Public Representative requests that a Confidential Information Request be issued to obtain additional clarifying data and information from the Postal Service concerning the proposed changes to analytical methods relating to the establishment of a new methodology to determine the volume variability factors (variabilities) for the mail processing cost pools representing automated letter and flat sorting operations, labeled as Proposal Six.[1] The proposed questions seek information that will allow participants to provide more constructive comments and evaluate whether the proposal meets the applicable legal and regulatory requirements. Obtaining this information will also contribute to a better understanding of how the Postal Service has interpreted Commission rules and allow the Commission to make a fully informed, reasoned determination on whether Proposal One meets applicable legal and regulatory requirements, including 39 U.S.C. § 3652(e)(2) and 39 C.F.R. part 3050.

[1] Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Six), filed September 15, 2020 (*Petition*).

Proposed Question(s)

1. Please refer to *Petition*, LCRA_MP Variability Report.pdf, at 20, and footnote 9. The text states that "Since these [volume-independent technological parameters] may differ systematically across facilities, the model allows for facility-specific intercepts." The footnote states that "The fixed-effects model is consistent when the latent variables are correlated with the observed variables, which is the general case. Other estimators, such as the random-effects model, may be efficient in the special case of unobserved effects that are uncorrelated with the other repressors (in which case, the fixed-effects model remains statistically consistent), but inconsistent if the zero-correlation requirement is violated."
   a. Please discuss whether good econometric practice would consider testing a Random Effects Model versus a Fixed Effects Model, when there is a reasonable possibility that unobserved variables, vary over time.[2]
   b. Please explain whether you performed any analysis to measure or examine the stability of the most likely unobserved variables over the sample period.
   c. If you did not perform the type of analysis suggested in "1.a," please discuss the reasons you chose to estimate a Fixed Effects Model without testing a Random Effects Model.
   d. Please provide any programs, worksheets, data, or charts you may have used to measure or examine the stability of the most likely unobserved variables over the sample period.
   e. Please perform, interpret, and provide the program(s) and results for a Hausman Test which compares the proposed fixed effects model with a random effects model which controls for several of the time invariant variables available in the data set.

[2] In the current case; variables such as managerial expertise, the number of DBCS, AFSM, or FSS machines, staffing levels; or site specific socio-demographic factors, such as population, income, racial composition, education level, etc., may vary within each plant over the sample period.

2. This question refers to the clustering of errors in your regression models.
   a. Please confirm that your proposed regression model clusters errors according to plants (sites), as well as according to mechanized letter and flat sorting equipment (DBCS, AFSM, or FSS machine). If you do not confirm please explain.
   b. Please confirm that the site cluster is used to correct for volume based heterogeneity, i.e. heteroscedasticity. If you do not confirm, please explain.
   c. Please discuss the type of heterogeneity being controlled for by clustering of errors according to machine-type.

Respectfully submitted,

Lawrence Fenster
Public Representative

901 New York Avenue, N.W., Suite 200
Washington, DC 20268-0001
Phone (202) 789-6862
Email: larry.fenster@prc.gov